

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA

ADOBE SYSTEMS INCORPORATED,

Plaintiff,

v.

ANTHONY KORNRUMPF, a/k/a TONY
KORNRUMPF; and HOOPS ENTERPRISE, LLC,

Defendants.

AND ALL RELATED COUNTERCLAIMS

No. C 10-02769 CW

ORDER GRANTING IN
PART AND DENYING
IN PART ADOBE
SYSTEMS
INCORPORATED'S
MOTION TO DISMISS
AND DENYING
DEFENDANTS'
MOTION FOR A
PRELIMINARY
INJUNCTION
(Docket Nos. 55
and 68)

Plaintiff and Counterclaim-Defendant Adobe Systems Incorporated moves to dismiss the counterclaims of Defendants and Counter-Claimants Hoops Enterprise, LLC, and Anthony Kornrumpf (collectively, Defendants). Defendants oppose the motion and move for a preliminary injunction. Adobe's motion was taken under submission on the papers; Defendants' motion will be decided on the papers. Having considered the papers submitted by the parties, the Court GRANTS in part Adobe's motion to dismiss and DENIES it in part and DENIES Defendants' motion for a preliminary injunction.

BACKGROUND

Adobe, a California corporation, initiated this copyright and trademark infringement lawsuit on June 24, 2010. It alleges that Defendants are Tennessee residents and that they use, among other services, the Internet auction site eBay to offer for sale and sell Adobe software. Adobe avers that it has not licensed Defendants to

1 make or distribute copies of its software. Adobe also pleads that
2 Defendants use, without a license, images similar or identical to
3 Adobe trademarks as part of their online business. Adobe seeks
4 relief pursuant to the Copyright Act, 17 U.S.C. §§ 101, et seq.,
5 and the Lanham Act, 15 U.S.C. §§ 1501, et seq.

6 Defendants counterclaim against Adobe for a declaratory
7 judgment of copyright misuse and violation of California's Unfair
8 Competition Law (UCL), Cal. Bus. & Prof. Code §§ 17200, et seq. In
9 particular, Defendants contend that Adobe misuses its copyrights by
10 asserting them in contravention of the first sale doctrine, as
11 codified in 17 U.S.C. § 109. Defendants also assert copyright
12 misuse and the first sale doctrine as affirmative defenses. Answer
13 ¶¶ 10 and 23.

14 Defendants allege the following facts to support their
15 assertion that Adobe made a "first sale" of its software. Adobe
16 distributes copies of its software through various channels. As
17 relevant here, Adobe provides copies to computer hardware
18 manufacturers which, in turn, sell their hardware with Adobe
19 software "as a package deal." First Am. Countercls. (1AC) ¶ 11.
20 The manufacturers cannot return the software to Adobe, but can "re-
21 sell the copy of software without limit to any individual or entity
22 for any price." Id. "Adobe has no control over the means, method,
23 or other terms of sale by the hardware manufacturer." Id.
24 Purchasers of these manufacturers' hardware may not want the
25 included Adobe software and, as a result, may sell the software to
26 "independent re-sellers, such as Hoops." Id. ¶ 26.

27 On January 19, 2011, the Court had dismissed Hoops's original
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1 counterclaims against Adobe and the Software and Information
2 Industry Association (SIIA). Defendants then filed their current
3 counterclaims, but do not bring claims against the SIIA.

4 LEGAL STANDARD

5 A complaint must contain a "short and plain statement of the
6 claim showing that the pleader is entitled to relief." Fed. R.
7 Civ. P. 8(a). Dismissal under Rule 12(b)(6) for failure to state a
8 claim is appropriate only when the complaint does not give the
9 defendant fair notice of a legally cognizable claim and the grounds
10 on which it rests. Bell Atl. Corp. v. Twombly, 550 U.S. 544, 555
11 (2007). In considering whether the complaint is sufficient to
12 state a claim, the court will take all material allegations as true
13 and construe them in the light most favorable to the plaintiff. NL
14 Indus., Inc. v. Kaplan, 792 F.2d 896, 898 (9th Cir. 1986).
15 However, this principle is inapplicable to legal conclusions;
16 "threadbare recitals of the elements of a cause of action,
17 supported by mere conclusory statements," are not taken as true.
18 Ashcroft v. Iqbal, ___ U.S. ___, 129 S. Ct. 1937, 1949-50 (2009)
19 (citing Twombly, 550 U.S. at 555).

20 DISCUSSION

21 I. Counterclaim for Declaratory Relief Based on Copyright Misuse
22 Defendants seek a declaration that Adobe engaged in copyright
23 misuse by asserting its copyrights in violation of the first sale
24 doctrine. Adobe argues that this counterclaim should be dismissed
25 because it is duplicative of Defendants' copyright misuse

1 affirmative defense.¹

2 The Declaratory Judgment Act permits a federal court to
3 "declare the rights and other legal relations" of parties to "a
4 case of actual controversy." 28 U.S.C. § 2201; see Wickland Oil
5 Terminals v. Asarco, Inc., 792 F.2d 887, 893 (9th Cir. 1986). The
6 "actual controversy" requirement of the Declaratory Judgment Act is
7 the same as the "case or controversy" requirement of Article III of
8 the United States Constitution. Am. States Ins. Co. v. Kearns, 15
9 F.3d 142, 143 (9th Cir. 1993).

10 Under the Declaratory Judgment Act, a two-part test is used to
11 determine whether jurisdiction over a claim for declaratory relief
12 is appropriate. Principal Life Ins. Co. v. Robinson, 394 F.3d 665,
13 669 (9th Cir. 2005). The court first must determine if an actual
14 case or controversy exists within its jurisdiction. Id. If so,
15 the court then must decide whether to exercise its jurisdiction.
16 Id. In doing so, the court may consider

17 whether the declaratory action will settle all aspects of
18 the controversy; whether the declaratory action will
19 serve a useful purpose in clarifying the legal relations
20 at issue; whether the declaratory action is being sought
21 merely for the purposes of procedural fencing or to
22 obtain a res judicata advantage; or whether the use of a
declaratory action will result in entanglement between
the federal and state court systems. In addition, the
district court might also consider the convenience of the
parties, and the availability and relative convenience of
other remedies.

23 Government Employees Ins. Co. v. Dizol, 133 F.3d 1220, 1225 n.5
24 (9th Cir. 2000) (citation and internal quotation marks omitted).

26 ¹ In its reply, Adobe suggests that it does not move to
27 dismiss this counterclaim on the ground that Defendants fail to
allege sufficient facts. Reply at 2 n.2.

1 Several courts have recognized that a counterclaim for
2 declaratory relief based on copyright misuse may be brought against
3 a plaintiff who has claimed copyright infringement. See, e.g.,
4 Adobe Sys. Inc. v. Norwood, 2011 WL 845923, at *4-*5 (N.D. Cal.);
5 Apple Inc. v. Psystar Corp., 2009 WL 303046, at *2 (N.D. Cal.). In
6 Psystar, a manufacturer distributed computers that could run
7 various operating systems, including Apple's Mac OS. 2009 WL
8 303046, at *1. Apple sued the manufacturer for copyright
9 infringement. Id. The manufacturer moved to add a counterclaim
10 for declaratory judgment of copyright misuse, asserting that Apple
11 "improperly leveraged its Mac OS copyrights in order to gain
12 exclusive rights with respect to Mac OS-compatible hardware systems
13 not granted in the Mac OS copyrights." Id. The court granted the
14 manufacturer's motion, reasoning that it "may well have a
15 legitimate interest in establishing misuse independent of"
16 resolving the copyright infringement claim, such as "to clarify the
17 risks it confronts by marketing the products at issue in this case
18 or others it may wish to develop." 2009 WL 303046, at *2. The
19 court also noted that a copyright misuse counterclaim may be
20 appropriate to provide relief for "potential defendants not
21 themselves injured by the misuse who may have similar interests" as
22 the counterclaiming defendant. Id. (citing Lasercomb Am., Inc. v.
23 Reynolds, 911 F.2d 970, 979 (4th Cir. 1990)). In rendering its
24 decision, the court expressly disagreed with other district courts
25 that rejected copyright misuse counterclaims on the grounds that
26 such claims are duplicative of affirmative defenses claiming the
27 same and are a waste of judicial resources. Apple, 2009 WL 303046,

1 at *3 (citing Ticketmaster LLC v. RMG Techs., Inc., 536 F. Supp. 2d
2 1191, 1199 (C.D. Cal 2008)).

3 Defendants do not present the circumstances raised in Apple,
4 nor do they establish that their copyright misuse counterclaim is
5 not duplicative of their copyright misuse affirmative defense.
6 This case concerns only Defendants' sale of copies of Adobe
7 software that were originally part of a "package deal" with
8 hardware. If Defendants prevail on the merits on their affirmative
9 defense of copyright misuse, they will obtain a decision on the
10 lawfulness of selling software they obtained through the
11 distribution channel at issue here. Defendants do not identify any
12 circumstance in which this ruling would be insufficient. Unlike in
13 Psystar, there is no suggestion that Defendants intend to sell
14 another type of product for which success on their copyright misuse
15 affirmative defense would be insufficient.

16 Defendants do not demonstrate how their counterclaim for
17 declaratory relief would provide insight not afforded by
18 adjudication of their copyright misuse defense. Because a
19 declaratory judgment of copyright misuse would not serve a useful
20 purpose and Defendants' affirmative defense will afford them
21 sufficient clarification of their rights, the Court declines to
22 exercise its discretion to hear this counterclaim.

23 II. Counterclaim for Violations of California's Unfair Competition
24 Law

25 Defendants assert a counterclaim under California's UCL,
26 alleging that Adobe misused its copyright by "wrongfully alleging
27 infringement for conduct which is protected by 17 U.S.C. § 109."
28

1 1AC ¶ 35. Defendants contend that Adobe does so to limit
2 competition in the secondary software market. Adobe contends that
3 such a claim is preempted by the Copyright Act.

4 The Copyright Act provides that "all legal or equitable rights
5 that are equivalent to any of the exclusive rights within the
6 general scope of copyright as specified by section 106 in works of
7 authorship that are fixed in a tangible medium of expression and
8 come within the subject matter of copyright as specified by
9 sections 102 and 103, whether created before or after that date and
10 whether published or unpublished, are governed exclusively by this
11 title." 17 U.S.C. § 301(a). The Act does not preempt causes of
12 action arising under state law concerning "activities violating
13 legal or equitable rights that are not equivalent to any of the
14 exclusive rights within the general scope of copyright as specified
15 by section 106." Id. § 301(b)(3). Section 106 of the Copyright
16 Act enumerates exclusive rights provided to "the owner of
17 copyright." Id. § 106.

18 As noted above, Defendants' UCL counterclaim implicates the
19 first sale doctrine, which is codified at 17 U.S.C. § 109.
20 Defendants do not assert that they are the owners of the copyrights
21 in the Adobe software and, as a result, they are not asserting
22 rights afforded by section 106. The preemption provision of the
23 Copyright Act specifically indicates that it concerns only rights
24 specified in section 106. See Baby Moose Drawings, Inc. v.
25 Valentine, 2011 WL 1258529, at *3 n.4 (C.D. Cal.) (declining to
26 determine whether section 109 preempts state law claim because "the
27 Copyright Act's preemption analysis only requires an examination of
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1 the exclusive rights under 17 U.S.C. § 106"). Adobe identifies no
2 authority indicating that state law claims concerning violation of
3 the limits imposed by section 109 are preempted by the Copyright
4 Act.

5 Based on the specificity of section 301, and applying the
6 general "presumption against preemption," Nat'l Meat Ass'n v.
7 Brown, 599 F.3d 1093, 1097 (9th Cir. 2010), Defendants' pleadings
8 do not require a conclusion that their UCL counterclaim is
9 preempted. Accordingly, Adobe's motion to dismiss this
10 counterclaim must be denied.

11 II. Defendants' Motion for a Preliminary Injunction

12 Defendants seek a preliminary injunction prohibiting Adobe
13 from interfering with their business of selling copies of Adobe
14 software on eBay.

15 To obtain a preliminary injunction, a movant "must establish
16 that he is likely to succeed on the merits, that he is likely to
17 suffer irreparable harm in the absence of preliminary relief, that
18 the balance of equities tips in his favor, and that an injunction
19 is in the public interest." Winter v. Natural Res. Def. Council,
20 Inc., ___ U.S. ___, 129 S. Ct. 365, 374 (2008). Alternatively, "a
21 preliminary injunction could issue where the likelihood of success
22 is such that serious questions going to the merits were raised and
23 the balance of hardships tips sharply in plaintiff's favor," so
24 long as the plaintiff demonstrates irreparable harm and shows that
25 the injunction is in the public interest. Alliance for the Wild
26 Rockies v. Cottrell, 632 F.3d 1127, 1131 (9th Cir. 2011) (citation
27 and internal quotation and editing marks omitted).

1 A court employs a sliding scale when considering a plaintiff's
2 showing as to the likelihood of success on the merits and the
3 likelihood of irreparable harm. Id. "Under this approach, the
4 elements of the preliminary injunction test are balanced, so that a
5 stronger showing of one element may offset a weaker showing of
6 another." Id.

7 Defendants' counterclaims rest entirely on their assertion
8 that the copies of Adobe software that they sold are subject to the
9 first sale doctrine, which limits a copyright owner's rights under
10 the Copyright Act. The first sale doctrine enables an "'owner of a
11 particular copy' of a copyrighted work to sell or dispose of his
12 copy without the copyright owner's authorization." Vernor v.
13 Autodesk, Inc., 621 F.3d 1102, 1107 (9th Cir. 2010) (quoting 17
14 U.S.C. § 109(a)). The doctrine "does not apply to a person who
15 possesses a copy of the copyrighted work without owning it, such as
16 a licensee." Vernor, 621 F.3d at 1107 (citing 17 U.S.C. § 109(d)).
17 A "software user is a licensee rather than an owner of a copy where
18 the copyright owner (1) specifies that the user is granted a
19 license; (2) significantly restricts the user's ability to transfer
20 the software; and (3) imposes notable use restrictions." Vernor,
21 621 F.3d at 1111; see also UMG Recordings v. Augusto, 628 F.3d
22 1175, 1180 (9th Cir. 2011) (stating that, in the context of
23 computer software, "copyright owners may create licensing
24 arrangements so that users acquire only a license to use the
25 particular copy of software and do not acquire title that permits
26 further transfer or sale of that copy without the permission of the
27 copyright owner").

1 Defendants proffer evidence of a contract Adobe uses with
2 hardware manufacturers for the distribution of its software. See
3 Boyce Decl. ¶ 15. The contract states explicitly that Adobe
4 provides only licenses to the manufacturer and that the
5 manufacturer "shall not at any stage have title to the physical
6 property or the Intellectual Property in the Software Products."
7 Boyce Decl., Ex. E ¶ 12.3. That Adobe explicitly states that
8 hardware manufacturers do not acquire title to the software
9 suggests that title did not pass to Defendants. Vernor, 621 F.3d
10 at 1112. Thus, under Vernor, Defendants do not appear entitled to
11 invoke the first sale doctrine.

12 Further, despite Vernor's guidance on what is necessary to
13 invoke the first sale doctrine in the context of computer software,
14 Defendants do not allege that the user restrictions enumerated by
15 the Ninth Circuit are absent here. And their conclusory
16 allegations that the hardware manufacturers acquired title to the
17 software are not entitled to any weight, particularly in light of
18 contrary evidence. Defendants' beliefs as to the legality of their
19 conduct, on their own, are not sufficient to justify the entry of a
20 preliminary injunction.

21 Because Defendants do not demonstrate a likelihood of success
22 on the merits, they are not entitled to a preliminary injunction.

23 CONCLUSION

24 For the foregoing reasons, the Court GRANTS in part Adobe's
25 motion to dismiss and DENIES it in part (Docket No. 55) and DENIES
26 Defendants' motion for a preliminary injunction (Docket No. 68).
27 The Court declines to exercise its discretion to hear Defendants'

1 counterclaim for declaratory relief. In all other respects,
2 Adobe's motion is DENIED.

3 IT IS SO ORDERED.

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5 Dated: 7/25/2011



CLAUDIA WILKEN

United States District Judge